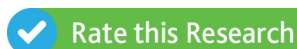


CREDIT OPINION

21 January 2022



Contacts

Nicholas Lehman +1.617.535.7694
 VP-Senior Analyst
 nicholas.lehman@moody's.com

Genevieve Nolan +1.212.553.3912
 VP-Senior Analyst
 genevieve.nolan@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Lexington (Town of) MA

Update to credit analysis

Summary

[Lexington](#) (Aaa stable) benefits from a large and wealthy tax base that is expected to continue to grow over the near term given its location to [Boston](#) (Aaa stable) and attractiveness to both residential and biotech and pharmaceutical sectors. The town's financial position is healthy with strong reserves and liquidity supported by conservative fiscal management. The debt burden is slightly above average given an uptick in debt issuance primarily for a new school. The debt burden is mitigated by strong voter support for debt exclusions to the tax levy limit. The town's unfunded pension and OPEB liabilities are manageable with a strong commitment toward funding the liabilities over the long-term.

Credit strengths

- » Large and wealthy tax base
- » Healthy reserves and liquidity with strong fiscal management
- » History of voter support for debt exclusions to the tax levy limit

Credit challenges

- » Large capital projects anticipated over the long-term
- » Revenue constraints under the Proposition 2 ½ tax levy limit

Rating outlook

The stable outlook reflects the very strong tax base that is expected to continue to experience at least modest growth over the outlook period given a strong housing market and biotech industry presence. The outlook also considers the town's strong fiscal management that is committed to maintaining healthy reserves while continuing to fund pension and OPEB liabilities.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Material decline in reserves and liquidity
- » Significant increase in the debt burden
- » Material decline in the tax base and economy

Key indicators

Exhibit 1

Lexington (Town of) MA

	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$9,270,432	\$10,863,785	\$10,863,785	\$12,008,479	\$12,008,479
Population	32,936	33,339	33,480	33,340	33,340
Full Value Per Capita	\$281,468	\$325,858	\$324,486	\$360,182	\$360,182
Median Family Income (% of US Median)	267.7%	274.0%	279.3%	285.0%	285.0%
Finances					
Operating Revenue (\$000)	\$188,074	\$219,796	\$220,945	\$233,238	\$243,508
Fund Balance (\$000)	\$64,097	\$71,792	\$76,715	\$77,460	\$81,087
Cash Balance (\$000)	\$69,007	\$75,300	\$94,291	\$90,093	\$97,857
Fund Balance as a % of Revenues	34.1%	32.7%	34.7%	33.2%	33.3%
Cash Balance as a % of Revenues	36.7%	34.3%	42.7%	38.6%	40.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$123,874	\$182,584	\$192,033	\$218,476	\$223,768
3-Year Average of Moody's ANPL (\$000)	\$98,651	\$101,656	\$101,592	\$106,249	\$123,589
Net Direct Debt / Full Value (%)	1.3%	1.7%	1.8%	1.8%	1.9%
Net Direct Debt / Operating Revenues (x)	0.7x	0.8x	0.9x	0.9x	0.9x
Moody's - ANPL (3-yr average) to Full Value (%)	1.1%	0.9%	0.9%	0.9%	1.0%
Moody's - ANPL (3-yr average) to Revenues (x)	0.5x	0.5x	0.5x	0.5x	0.5x

As of June 30 fiscal year-end

Sources: US Census Bureau, Lexington (Town of) MA's financial statements and Moody's Investors Service

Profile

Located in Middlesex County the Town of Lexington is a wealthy suburb 11 miles northwest of the City of Boston. The town had a population of 33,340 as of the 2019 American Community Survey.

Detailed credit considerations

Economy and tax base: growth expected to continue given large biotech presence anchored by a strong housing sector

Lexington's sizeable \$13.5 billion tax base (2021-22 equalized value) is expected to continue to grow over the near term given its strong residential market and ongoing demand for commercial and industrial space, primarily related to life science and biotechnical industries. The most recent equalized value increased by 12.2% since the two-year certification in 2019. Additionally, the 2022 assessed value increased by 8.4% bringing the five year annual growth rate to 5.7%. The town's economic development plans remain strong and focused on rezoning initiatives for higher density areas and to continue to focus on providing laboratory and manufacturing space to support life science, biotech and pharmaceutical industries. The top 10 taxpayers represent only 8% of 2022 assessed value with the top taxpayer, [Takeda Pharmaceutical Company Limited](#) (Baa2 positive), representing only 1.7%. Takeda is also a top employer and is currently expanding its footprint in town.

The town has strong wealth and income with a median family income equal to 285% of the US median and a \$404,055 equalized value per capita. The unemployment rate of 3.4% (November 2021) has recovered from the pandemic and is likely to continue to trend below the commonwealth's 4.8% and US's 3.9%.

Financial operations and reserves: stability with healthy reserves expected to continue because of strong fiscal management

The town's financial position is expected to remain healthy over the next few years given conservative budgeting and stable primary revenue sources that have mitigated the impacts of the coronavirus pandemic on the town's smaller more economically sensitive

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

revenue. Fiscal 2020 audited financials reflect a general fund surplus that increased available general fund reserves to \$81.1 million representing a healthy 32.8% of revenue. The strong reserves are expected to be maintained over the near term.

Fiscal 2021 year-end results on a budgetary basis indicate another surplus in the general fund including a \$2 million positive variance in revenue because of strong building permits and tax collections. The surplus also reflects almost \$10 million in expenses under budget.

The fiscal 2022 budget increased by 7% over the prior year given limited budget growth in 2021 related to pandemic concerns. The budget drivers include education and capital funding. The budget is balanced with a 4% tax levy increase and limited use of reserves, around \$1.5 million. Operations to date are on target with no material variation.

Liquidity

Cash and equivalents at the end of fiscal 2020 totaled \$97.9 million representing a very strong 39.6% of revenue. The liquidity position is not likely to have significantly changed at the end of fiscal 2021.

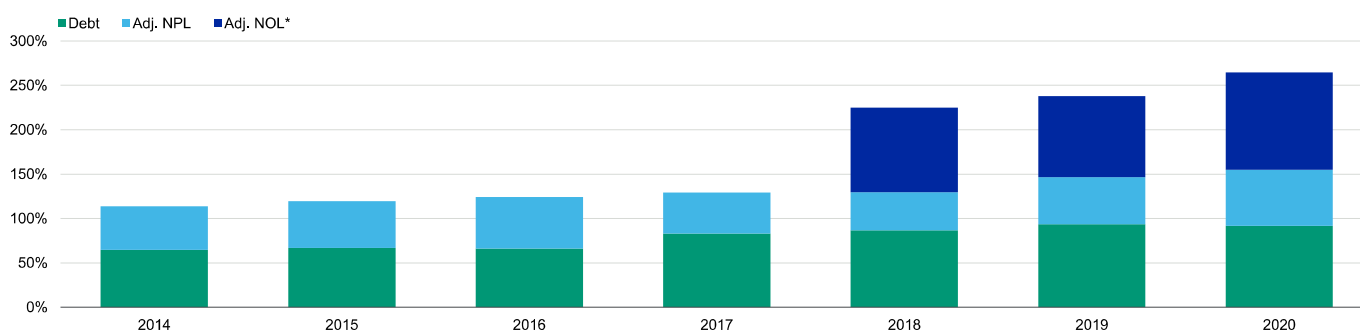
Debt and long-term liabilities: capital plans and funding schedule for pension and OPEB will continue to be a budget driver but remain manageable

Lexington's debt burden and unfunded long-term liabilities are well managed but will be a long-term budget driver given capital plans and the pension and OPEB funding schedule (see Exhibit 2). The town's direct debt burden of \$211.6 million represents an above-average 1.6% of equalized value and 0.9 times general fund revenue. Most of the town's debt service is excluded from the tax levy limit which provides more flexibility for operating costs. Future debt issuance is likely to include a police station project with a cost of over \$30 million with a debt exclusion vote anticipated in spring of 2022. The town is also beginning to review options for a new high school which is at least five years out from construction but would be a significant project.

Exhibit 2

Lexington's leverage is average and is expected to be driven by the debt burden and OPEB liability over the long-term

Leverage as a % of revenue



Adj. NOL not available pre-GASB 75

Source: Moody's Investors Service and Lexington's audited financial statements

Legal security

The bonds are backed by the town's full faith and credit general obligation limited tax pledge as not all debt service has been voted by the town as excluded from the tax levy limit of Proposition 2 ½.

Debt structure

All of the town's debt is fixed rate with 60% of principal repaid in 10 years. Fiscal 2020 debt service was \$24 million representing 9.9% of general fund expenses.

Debt-related derivatives

Lexington has no debt-related derivatives.

Pensions and OPEB

Lexington's pension and OPEB liabilities on a reported basis are smaller than the debt burden and, though manageable at this time, represent a potential future credit challenge. The town participates in the Lexington Retirement System, a single-employer defined benefit plan and makes annual required contributions based on at least its proportional share. In the first half of fiscal 2022 the town

pushed the funding date by five years to 2030 from 2025 and lowered the discount rate to 7.25% from 7.5% helping to maintain contribution increased to no more than 10% per year. The town's teachers participate in the Massachusetts Teachers Retirement System in which the town receives on-behalf payments toward the liability that is covered by the Commonwealth. The town also funds its OPEB liability on a pay-go basis plus annual budgeted deposits into an OPEB trust. The table below summarizes the town's 2020 debt, pension and OPEB unfunded liabilities and contributions.

Exhibit 3

Lexington's fiscal 2020 debt, pension and OPEB unfunded liabilities and contributions

2020	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	243,508	n/a	n/a
Reported Unfunded Pension Liability	33,407	14%	7.50%
Moody's Adjusted Net Pension Liability	153,590	63%	3.22%
Reported Net OPEB Liability	127,365	52%	7.50%
Moody's Adjusted Net OPEB Liability	266,565	109%	2.70%
Net Direct Debt	223,768	92%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	643,923	264.44%	
Pension Contribution	6,253	2.57%	n/a
OPEB Contribution	8,427	3.46%	n/a
Debt Service	23,998	9.86%	n/a
Total Fixed Costs	38,678	15.88%	n/a
Tread Water Gap	n/a	n/a	n/a
Moody's Adjusted Fixed Costs	n/a	n/a	n/a

Fiscal 2020 tread water data not yet available

Source: Moody's Investors Service and Lexington's audited financial statements

The town's annual pension contributions over the past five years (2015-2019, 2020 not yet available) have been strong with annual payments over 250% of the tread water indicator which is the amount required to keep the unfunded liability from increasing if all actuarial assumptions are realized. Failure to realize the assumed return on pension assets could result in larger required increases to meet the funding schedule. Additionally, the town makes aggressive annual contributions toward its OPEB liability which has an above average fiduciary net position of 13% of the total OPEB liability. Fixed costs are expected to remain manageable and under 20% of revenue over the next few years.

ESG considerations

Environmental

Environmental risks are not material for the town at this time. Lexington has completed a municipal vulnerability preparedness program administered by the state and is incorporating climate mitigation efforts into its capital planning. Currently those capital plans focus on water, sewer and stormwater improvements. Moody's ESG Solutions assesses the town's climate risks based on county level data as having a high risk for hurricanes, medium risk for water stress, extreme rainfall and sea level rise, and low risk for heat stress.

Social

Social risks are factored into the economy and tax base factors and discussed above.

Governance

The town maintains strong fiscal management with formal policies, multi-year budget planning and five-year capital improvement plan.

Massachusetts cities have an institutional framework score ¹ of "Aa", which is strong. The sector's major revenue source of property taxes, are subject to the Proposition 2 1/2 tax levy cap which can be overridden with voter approval only. However, the cap of 2.5% still allows for moderate revenue-raising ability. Expenditures primarily consist of personnel costs, as well as education costs for cities that manage school operations, and are highly predictable given state-mandated school spending guidelines and employee contracts. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed costs are generally less than 25% of expenditures. Fixed costs are driven mainly by debt service and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

Lexington (Town of) MA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$13,471,182	Aaa
Full Value Per Capita	\$404,055	Aaa
Median Family Income (% of US Median)	285.0%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	33.3%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	11.3%	Aa
Cash Balance as a % of Revenues	40.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	15.6%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Notching Adjustments: ^[2]		
Unusually Strong or Weak Budgetary Management and Planning		Up
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.6%	Aa
Net Direct Debt / Operating Revenues (x)	0.9x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.9%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.5x	Aa
Scorecard-Indicated Outcome		Aaa
Assigned Rating		Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, Lexington's financial statements and Moody's Investors Service

Endnotes

- 1 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

© 2022 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1316883

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454